

Business Activity Management in Light Industry Enterprises in a Competitive Market Environment: Evidence from Uzbekistan

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Abstract

Market competition obscures the business performance by posing risks from different origins and clues which eventually lead to revise the business activity of an enterprise. As a backbone industry of daily consumer needs – light industry – faces the same scene of market condition and trade structure which creates a considerable threat to the enterprises. This article examines the current market condition, competitive environment for light industry, evaluates the impact channels and areas for business activity of related enterprises and compares the scenarios with light industry development in Uzbekistan.

Keywords: light industry, business activity, competitive environment, Uzbekistan.

1. Introduction

There has been much debate in the strategy literature as to whether organizational capabilities or market competition are more important in shaping firms' activity and outcomes (Bridoux, 1997). In the competitive environment of the 21st century, an enterprise requires substantial financial and non-financial structure, rapid response, efficient management, and high quality of products and services (Wen, 2010). To add material value in today's rapidly changing, increasingly complex, and global business environment, business activity of company must be able to quickly adapt to all kinds of change: organizational, market, competitive, and regulatory change (PwC, 2008). Volatility and uncertainty after global financial crisis doubled the importance of stricter approach towards business activity, its management and monitoring. Increasingly wide access to market and lessening of barriers created an even worse environment for businesses to stay in the market at least as an ordinary player. Competitive environment in markets, lowering demand and excess supply capability evaded the strong roots of large businesses, and made them vulnerable to any sudden shocks in the market and a whole economy.

Light industry has experienced an unprecedented of changes in terms of the degree and pace, which can be seen in global supply networks. The many facets of complexity of light industry continue to increase due to the instability in the global market. Limited volume of demand and excessive supply, incapability of potential buyers, highly competitive market and polarization of economies left the light industry under a considerable risk of sectoral downturn. Therefore, there is a growing need for light industry enterprises to keep financial and market conditions, structure and performance under control. Growing body of evidence shows that all economies are in the position of developing all sectors and fields of domestic economy to reduce interdependence and reliance on import. In line with other businesses, market risk is unavoidable for light industry enterprises, as cross-border business activity is getting tighter due to price and quality competition between local and foreign producers.

Uzbekistan is a primarily rapidly growing economy with a large production and resource capacity for light industry. Transition of Uzbek economy from agrarian to diversified modern status development of all sectors in two decades, including light industry is seen as a success story in the global community. Current economic profile of Uzbekistan comprises the competitive market-based heavy and light industries and service sectors with growing volume of output and expanding area of business. This article analyses the condition in international light industry and impact of market competition on related business activity, evaluates the development pace of the industry in Uzbekistan and proposes the empirically-rooted recommendations for further development.

2. Literature Review

Business activity management, market competition and associated risks and their context in developing economies are always of research interest. However, their impact and condition in the light industry is not studied at an insufficient level. There are some studies that touched the light industry in their analyses but the fully dedicated paper still does not exist. Costello and Molloy (2009) examined the business activity

management and its linkages with continuous improvement initiatives by real-time performance. Frolick and Ariyachandra (2006) presented a framework for business activity and discussed the drivers, barriers and critical success factors. Jones (2008) studied the embeddedness and transnational business activity with its impact on economic and social conditions. As he found, transnational business activity needs more theoretical attention and broader explanation of success or failure of business activity in the context of globalization. Rylková (2015) analyzed the performance measurement and management of companies based on primary research and highlighted the indicators measuring performance in relation to the competition. Han et al. (2010) proposed a business activity monitoring framework based on the process-based performance measurement model monitored with key performance indicators. Okada (2005) examined the determinants of productivity in light industry, looking particularly at the impact of product market competition on productivity and found that market power, as measured by either individual firm's price-cost margin or market share, has negative impact.

3. Business Activity in a Competitive Environment: Scenario in International Light Industry

Today's business world is much complex and has uncertain conditions which influence the companies to run an effective business activity for the dynamic market (Rylková, 2015). Most enterprises are struggling to change their existing business processes into agile, product- and customer-oriented structures to survive in the competitive and global business environment (Han et al., 2010). Harsh market conditions and dying perspective of larger market shares pose the dangers of facing a striking competition among market players who have stronger positions. Global economic turbulence and slow recovery from last decade's financial crisis still affect the market performance through macroeconomic impact channels and cross-border crisis-led tools. Current market condition and a competitive environment in it is under a significant impact of supply, demand and other external factors which have direct and collateral effects in market share, consumer range and profitability (Figure 1). Any macroeconomic fluctuations may bring the high-probability risks of external shocks. In a competitive market condition, external factors have a greater risk of redistribution and profile modification in the market.

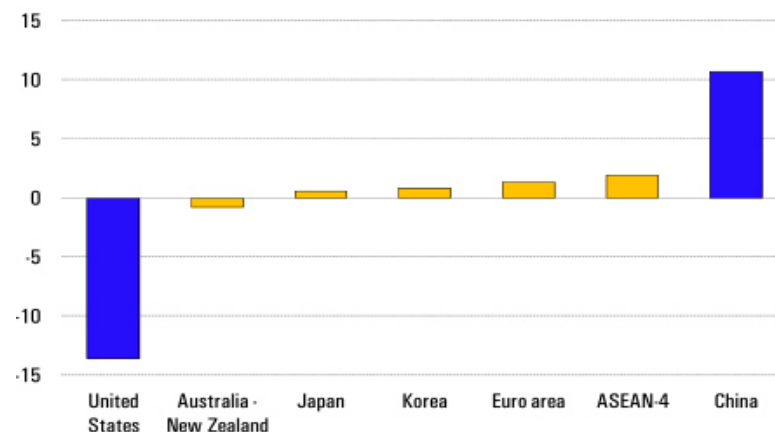
Figure 2. Business activity and competitive environment in light industry enterprises



Geographical change in international trade flows of light industry products derived from shifts in the industrial status of several developing and transition economies. Frequent growth of light industry output in China, Russia, Vietnam, India, Brazil, Uzbekistan etc. changed the bipolar structure of the world trade of light industry. From the new millennium, winds of light industry development blew from diverse countries due to geographical reallocation and replacement of market leadership. Regular improvements in product range, quality and marketability supported the healthy competitive environment and strengthened their market positions. Consumer goods are one of the main areas of industrial production which mainly covers the light industry outputs.

In a competitive market of light industry no single producer and no single consumer, multiple players of the market can dictate how the market operates depending on their own individual business decisions. Diminishability, profit motive, rivalry, excludability and rejectability forms the market and are seen as the success factors, since businesses face difficulties in operate in the light industry goods markets due to high level of competition and tight access. Empirically, enterprises keep the qualitative and quantitative analysis equally important in order to monitor internal and external economic environment. However, monitoring practices distinguish among enterprises as economic condition and business environment differ. In quantitative manner, enterprises need to observe the impact of changes in global light industry goods market on assets, turnover, market liquidity and trade or to run a ratio based policy.

Figure 2. Net exports of consumer goods to world markets, %

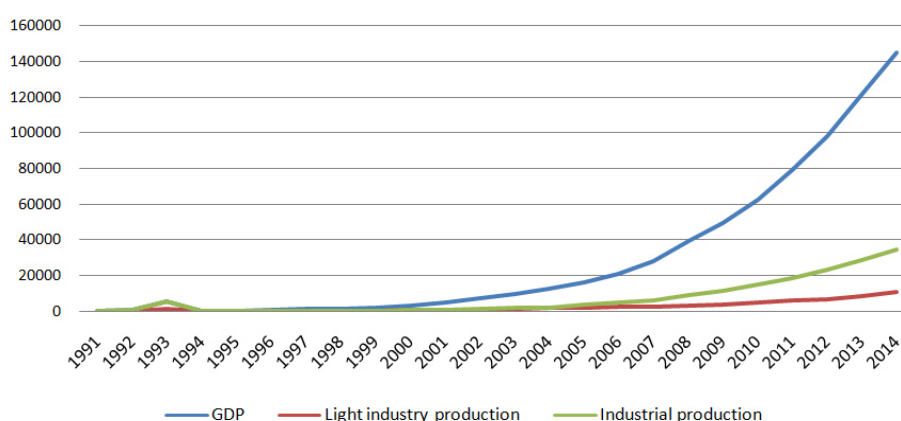


Source: IMF, 2014.

4. Light Industry Development and Business Performance in Uzbekistan

Light industry is one of the strategic sectors in the economy of Uzbekistan. It promotes the increase of industrial production, increase of the export potential, to the harmonious development of the regions, employment of the population and improves their wellbeing, contributes to the establishment and development of small and private businesses (Yusupov, 2015). Industrial specialization and output distribution in Uzbekistan is structured around light industry owing to adequate resource capability and favorable production facilities in all regions to develop light industry production. Recent economic development history of Uzbekistan shows that successful transformation from economywide agrarian specialization which provided agricultural raw materials only to former Soviet Union to a modern production facilities, which is providing final goods to world markets developed the industrial profile of growing economy. Industrialization and technological modernization processes enabled the industry to equip with new technologies and business structures which have been the core reforms to recover the economy from early-independence economic crisis and to step forward on reform path. In the last two decades, thanks to abovementioned development, light industry sector gained a considerable share in gross national output and became one of backbone sectors of Uzbek economy (Figure 3).

Figure 3. GDP, industrial production and light industry production in Uzbekistan in 1991-2014, billion UZS



Source: State Statistics Committee of the Republic of Uzbekistan

Light industry is an expanding sector with an increasing number of businesses involving in it. Free economic activity and trade liberalization, government support policies for small and medium-sized enterprises and foreign direct investment based joint ventures laid a solid foundation for boosting the production capacity of light industry and marketability of its outputs. Both private and jointly owned enterprises are supported for wider market access and coverage. In the first phase, light industry enterprises achieved the internal market saturation

and supplied the domestic market with all necessary goods. The second phase was the period of market extension and internationalization. In this phase, light industry enterprises started cross-border trade and gained its own position in foreign markets. Despite growing competition and sudden economic downturns in international markets, export volume of Uzbek light industry goods exceeded (Figure 4). Pre-and post-crisis performance of the industry showed double-digit growth in the last decade. Export range and destinations, quality and number of foreign consumers increased (Figure 5).

Despite governmental support and widening free market environment, in consistent with market principles, light industry enterprises need to run a prudent business activity to mitigate and diversify the risks and potential hazards derive originate from different external factors. Now Uzbek business sector is free in setting prices and liberalized at an adequate level to play in the market as both risk-maker and risk taker. Light industry enterprises are of even larger content of competition effect because of an active role in both domestic and international markets. Rivalry for market share in international markets always brings dangers of exit due to high reputational risk, market liquidity and instability in global economy.

Figure 4. Export volume of light industry goods in 2000-2015, million USD

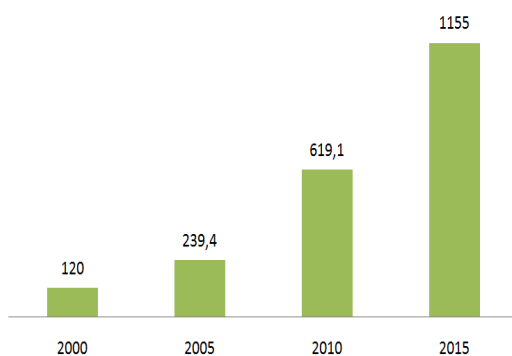
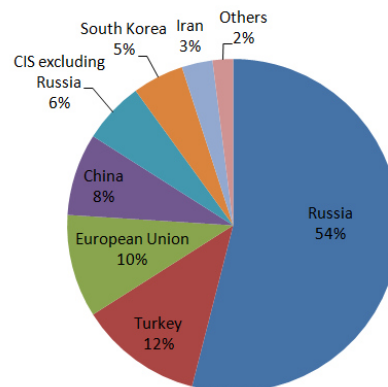


Figure 5. Export destinations of light industry goods, % of total export



Source: Uzbekyengilsanoat SJSC, 2015.

5. Conclusion and Recommendations

Key finding of this article is theoretical and empirical assessment of light industry development and condition of associated business entities in a transition economy of Uzbekistan. Results achieved from comparative study of global scenario of light industry goods markets and international business environment ensured the clearer orientation of development path of the industry in Uzbekistan. Deriving from the retrospective and prospective analyses of light industry conducted above, following changes and factors drive the light industry development further in domestic, regional and global scale:

1. Regular growth in new middle-class consumers in developing and emerging markets;
2. Positive changes in demographic structure e.g. aging and consumption patterns;
3. Rise of digitalism among consumers;
4. Modernization and trade concentration.

These factors ensure the equilibrium in both demand and supply sides of the light industry goods market and leads to the broader market competition among enterprises. In developing economies, including Uzbekistan, abovementioned factors bring development-led changes, solidify competitiveness and sharpen strategic aspects of business activity in spite of growing challenge in international markets.

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